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TAGS: [ELAB](#) [ECON](#) [EIND](#) [PGOV](#) [SOCI](#) [RS](#)
SUBJECT: "PIKALEVO SYNDROME:" NOT A PANDEMIC, BUT STILL
SERIOUS

REF: A. ST PETERSBURG#68
[1](#)B. MOSCOW#1562
[1](#)C. ST PETERSBURG#70

Classified By: EconMinCouns Eric T. Schultz, Reasons 1.4 (b,d)

SUMMARY

[1](#)1. (C) Government officials, business leaders, and economists have become fascinated over the past couple weeks with the potential spread of "Pikalevo syndrome" and the repetition in other single company towns of this month's highly publicized demonstration outside St. Petersburg. As expected, the example set in Pikalevo is already affecting other troubled industrial towns. However, despite the higher inclination of workers in single company towns to protest, experts assert that widespread labor unrest remains unlikely, particularly over the summer &dacha season.⁸ Pikalevo has illuminated the impotence of many of Russia's traditional labor unions in defending workers' rights. The GOR's response to the situation, including potential nationalization of factories and political monitoring of labor practices, is a clear step back from a market-oriented approach to Russia's labor problems, which will also further isolate labor unions. Given recent steps taken by business owners in other industrial towns to resolve worker disputes, the GOR's response appears in some measure to be having its intended effect. End summary.

"PIKALEVO SYNDROME:" SERIOUS, BUT NOT DEADLY

[1](#)2. (SBU) After the recent events in Pikalevo, in which unpaid workers blockaded a highway, leading to a personal intervention by Prime Minister Putin (reftel A), experts and business leaders are speculating on the likelihood of similar protests in any number of Russia's numerous single company towns.

[1](#)3. (SBU) According to the Institute of Modern Development, closely linked to President Medvedev, approximately 100 single company towns are currently experiencing situations similar to the conditions in Pikalevo. Alexander Shokhin, Head of the Russian Union of Industrialists and Entrepreneurs, told journalists at the St. Petersburg Economic Forum that he was concerned government intervention in the Pikalevo conflict would provoke many other workers to block roads and summon the Prime Minister. Twenty-five million Russians live in 460 single company towns, supplying 40 percent of national GDP and up to 80 percent of local

administrations, tax revenues.

14. (SBU) The Pikalevo demonstration and Putin's response have already influenced developments in other single company towns suffering from the crisis. On June 12, several hundred employees of Elbrusturist and Kanatnye Dorogi Prielbrusya (KDP) blocked a road near Mount Elbrus in the Republic of Kabardino-Balkariya, demanding higher salaries and the transfer of KDP shares to the labor collective. Arsen Kanokov, President of Kabardino-Balkariya, walked, owing to the blockade, into Elbrus to meet with protesters and promised their problems would be resolved shortly, after which the road was re-opened. In addition, union leaders at the OOO Alttrak tractor factory in Rubtsovsk, Altai region recently announced their readiness to take part in similar protests, comparing the situation in their town to Pikalevo. Union chair Lubov Maslova told a local news service the factory leadership was &practically holding people hostage, not paying salaries since November last year.8

15. (SBU) However, Putin's message to business owners in Pikalevo has had its intended effect, as business owners and local officials in several towns with problems similar to Pikalevo have acted quickly to resolve them and avoid becoming the next stop for the Prime Minister. The head of the Ural Railway Car Factory in Nizhny Tagil, Sverdlovsk region used the day Putin visited Pikalevo to meet with Nizhny Tagil's mayor and discuss a plan to rescue the factory and its workers. Through a newly concluded agreement, the enterprise, which had planned to terminate 24,000 employees, will increase its production from 170 tank cars in May to 500 in July, also calling back 6,500 workers from forced leave.

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The factory will increase its production despite plans by Russian Railways, its main client, to decrease its 2009 investment program by 1.7 times the level approved last fall.

In addition, 50 people in Baikalsk ended a hunger strike started on June 3 to protest four months of unpaid salaries at a pulp and paper mill. Managers of the Baikalsk mill, another one of Oleg Deripaska's companies, acted quickly to allocate 87.6 million rubles to clear up the wage arrears and compensate fired employees just days after Deripaska was publicly criticized by Putin for his failure to resolve the situation in Pikalevo.

CONTAGIOUS, BUT NOT SPREADING TOO QUICKLY

16. (C) Natalia Zubarevich, Director of Regional Research Programs at the Independent Institute of Social Policy, contended that the delicate balance between business owners, workers, and local authorities in Russia's single company towns will last until September but declined to predict the location of the next significant protest. In a meeting with us on June 11, Zubarevich stated that the summer dacha season, during which workers supplement their incomes with household agriculture, would be calm for Russia in general. Although she noted that towns in the Volga and Urals regions focused on the machine building and metallurgy sectors are suffering from the largest spike in unemployment, Zubarevich argued that it would be impossible to guess the site of the next flare-up of labor unrest. The trilateral social balance that maintains stability in these towns (reftel B) is a continuum, not a formula. The point at which workers in a given town finally decide they can no longer endure rising unemployment and falling incomes depends on their local situation.

17. (SBU) Yevgeniy Gontmakher, head of the Social Policy Center of the Russian Academy of Sciences Institute of Economics, also anticipated unrest in Russia's single company towns but downplayed the likelihood of a wide scale movement. Gontmakher has been raising awareness of the threat of unrest in single company towns since he first wrote about it

in &Vedomosti8 last November. While noting in a recent interview with &Echo Moskvyy8 that approximately two-thirds of Russians are still not prepared to take to the streets, Gontmakher contends that the potential for protests in single profile towns already strongly affected by the crisis is significantly higher. Although Gontmakher reaffirmed the protest potential in such towns in an interview with &Novaya Gazeta8 last week, he also acknowledged that these local disturbances were unlikely to evolve into nationwide protests due to the lack of organized political opposition.

¶8. (SBU) Other analysts have adopted a more pessimistic perspective on the prospects for continued stability in Russia's single company towns. Nikolai Petrov, Carnegie Center Moscow Scholar-in-Residence, recently published an article in "The Moscow Times," criticizing the inability of Russia's governing structures to address these issues outside of the intervention of the Prime Minister (reftel B). Petrov perceives a danger that Pikalevo will "set off a chain reaction in other depressed, one-industry towns," noting cities such as Zlatoust, where several thousand workers could find themselves without employment if the arbitrage court grants the local metallurgical factory's bankruptcy claim. As such, Zlatoust, where the city prosecutor intervened to force the factory to pay 35 million rubles in wage arrears owed to 6,000 of its workers one day after Putin visited Pikalevo, stands out as an example of the long-term problems still facing Russia's single company towns, even when business owners and local officials step in to address the immediate concerns inciting workers to protest.

CONSEQUENCES STILL SERIOUS

¶9. (C) Russia's traditional unions are also receiving heavy criticism for their inability to protect workers' rights after the Pikalevo incident. Zubarevich told us that the unions in Pikalevo were particularly bad and that Russian unions are generally &very weak.8 Prime Minister Putin convened a meeting of United Russia leaders last week and directed them to monitor the crisis in single company towns attentively because it was clear that unions were hopeless in

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this respect. He also underscored that businesses could allow themselves to ignore unions but not the positions of the ruling party.

¶10. (SBU) As further evidence of the low level of confidence in traditional unions, workers in other regions have continued to form new, independent unions to defend their rights. Public health workers in Arkhangelsk region rallied last month to protest the desperate situation in many hospitals (reftel C). They now plan to form a new, independent union because current union leaders have failed to address the shortage of medical personnel, inadequate salaries, and lack of medical equipment in local facilities.

¶11. (SBU) While Putin was ordering Pikalevo's factory owners to sign agreements restarting production, Duma deputies Andrey Isaev and Mikhail Tarasenko, both members of United Russia, introduced legislation for consideration in the lower house of parliament that would nationalize all three of Pikalevo's main enterprises: Basalcement-Pikalevo, Metakhima, and Pikalevo-Cement. Deripaska's &Basel8 group would receive approximately one billion rubles in exchange for Basalcement-Pikalevo. Putin referenced the possibility of nationalizing the factories during his visit, warning owners that they had three months to resolve the problem themselves.

According to journalist Stanislav Belkovskiy, nationalization would resolve Deripaska's problems with the Federal Anti-Monopoly Service, which has accused his company of violating competition regulations, while also transferring a problematic factory with serious debt and labor issues onto the taxpayers' shoulders. The Federation of Independent

Unions of Russia, according to its secretary, Alexander Shershukov, also supports nationalization of the factories, but as a way to resolve the complicated situation in Pikalevo.

COMMENT

¶12. (C) The GOR's response to the situation in Pikalevo represents an unfortunate step in the wrong direction in terms of the development of the country's industrial towns. Nationalization may address the immediate concern for workers' job security, but will do so by propping up inefficient enterprises for whose products demand is not growing. It will also place an additional strain on the government's budget resources. Finally, Putin's dismissal of labor unions and request for United Russia monitoring of business' compliance with labor regulations will increase political intervention in local business while further isolating unions away from the bargaining table. That said, Putin's intervention in Pikalevo is having the intended effect. Business owners in several areas have acted independently or upon the intervention of local authorities to pay off wage arrears or bring workers back from forced leave. Although isolated strikes and protests will continue in areas suffering most acutely from the financial crisis, widespread labor demonstrations remain unlikely, particularly over the summer. End Comment.

BEYRLE